



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. January 22, 2008. The following members were present:

Chairman Jody B. Olson
Cliff Hayes
J. Kirk Sullivan
Bill Deal

Trustee Jeff Cilek was absent and excused. Executive Director Alan H. Winkle, Deputy Director Don Drum, Chief Investment Officer Robert Maynard, Deputy Attorney General William von Tagen and Deputy Attorney General Joanna Guilfoy, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Kevin Jones	DBF
Dennis Fitzpatrick	DBF
Drew Black	DBF
James Coleman	REAI
Charlie Brown	REAI
Rod MacKinnon	Mountain Pacific Investment Advisors
Bill Palumbo	Mountain Pacific Investment Advisors
Doug Bates	Clearwater Advisors
Dona Van Trease	IPEA
Jim Shackelford	IEA
Brent Nye	Boise Schools
Chris Halverson	EFIB
Grant Hamilton	PFFI
Mike Walker	PFFI
Lealan Miller	EIDE Bailly LLP
Patrice Perow	PERSI

Cecile McMonigle	PERSI
Debbie Buck	PERSI
Judy Aitken	PERSI
Diane Kaiser	PERSI
Carol Boylan	PERSI

MINUTES

Approval of the Minutes: By motion duly made by Trustee Deal and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the December 11, 2007 meeting.

PORTFOLIO

Monthly Investment Report: Chief Investment Officer Robert Maynard reviewed his report dated January 18, 2008, an update to the January 15 version previously provided to the Board. Credit concerns and a slowing economy, with high oil prices, a weak dollar, slowing consumer spending, and declining corporate profits have hit the capital markets hard this month. The major outstanding concern is that expectations have moved to a very slow US economy for next year, with some substantial possibility of an actual recession to be led by the substantial drop in the housing market. Further, with the Fed rate cut and expectations of more to come in the future, there is now concern about continued dollar weakness and potential inflation. On the other hand, global growth will continue, although slowing (most noticeably in Europe).

The fund is down 5.1% for the month, and is down 2.9% for the fiscal year-to-date, at \$11.1 billion for the total fund. US equity markets are down 12% for the fiscal year, "led" by much larger drops (over 20%) in small cap value and REIT's. Private equity and emerging markets are up for the fiscal year, while international developed equities are down about the same as large cap US equities. Investment grade bonds, particularly Treasuries and TIPS, are doing very well. Private equity-- Zesiger, Fortis and Barings -- are the leading performers against benchmark. Donald Smith and the emerging markets managers are substantially trailing their benchmark, and Brandes, Bernstein Global, Adelante, and TCW are also materially trailing their benchmarks. Western and Fidelity are also substantially behind their benchmarks. PERSI is ahead of the strategic benchmark for the fiscal year-to-date by 2.5%. Strategic weights to global equities, emerging markets, private equity, and TIPS are the major reason, although the benefit has been substantially lessened by emerging market active manager underperformance. Collective active management in equities is broadly neutral. Formerly underperforming managers are outperforming their benchmarks (Mountain Pacific, Tukman, Barings), while formerly outperforming managers are now lagging (e.g. Donald Smith, Brandes, Bernstein). Our new global manager, Fortis, has started out very strong, with good absolute and relative returns.

Mr. Maynard discussed three main points during the meeting: 1) how terrible the absolute returns for the month have been; 2) how at current levels the market, and particularly the equity markets, are at attractive long-term levels (particularly at current bond yields); and 3) the fund's relative performance is holding up much better than expected.

He told the Trustees that if the month ended now, this would be the fourth worst monthly performance in the last 20 years. Other times were August of 1998 (-10.4%), September 2001 and September 2002 (-6.1%) – all reactions to major macro events (Russian default and Long Term capital, 9/11 and the last recession). On the other hand, the current market drop did not start from historically overvalued levels and, as a result, current valuations actually appear attractive. The market is being very pessimistic both about the economy and about the uncertainty surrounding the overall financial system due to the credit crunch. On the optimistic side, with the liquidity crunch having eased, the Fed substantially cutting the discount rate and fiscal stimulus of around 1% of GDP likely on the way, there is reason to believe that the worst will not occur. While only between a quarter and a third of the credit write downs have likely been announced, it looks like the market has discounted much more in the recent drop. PERSI's relative performance has held up very well in this market. In this current drop, which started right before Christmas 2007, our excess returns have continued to outperform. Active managers have helped; diversification with the addition of private equity and private real estate has softened volatility, acting like cash. As a result, the first indication is that our valuations are looking pretty good and REITS are starting to look attractive again. The portfolio as a whole is reacting better than Mr. Maynard would expect in this market, currently 2.5% ahead of our fiscal year benchmark. Chairman Olson asked – as of this date – for an estimate of the funding level of the fund. Mr. Maynard said that at fiscal year end we were 105% funded; the current losses would change that to somewhere in the mid 90% funded range. Mr. Maynard said the current market difficulties may continue for a number of weeks – he's not sure when the write off's will end, but expects it will take weeks rather than days for the market to stabilize.

INVESTMENT MANAGER COMMENTS

Chairman Olson opened the meeting to comments from PERSI investment managers. Dennis Fitzpatrick said the world economy is still intact and discussed the earnings yields and interest rate spreads, saying equities are undervalued. Chairman Olson asked about the 75 basis point cut by the Federal Reserve Bank which sent mixed signals and is interpreted by some as panic by the Feds. Mr. Fitzpatrick believes this will be a good year with the panic receding in a few days or weeks. Doug Bates of Clearwater Advisors reported that his colleagues in London thought cuts to about this level during the normal course of Fed meetings would have been a much better option, as this early cut lends credence that the US is going into a recession. He said it actually angered colleagues who think the Feds went overboard with the cut, aggressively signaling that rates will continue

to go down. Rod MacKinnon of Mountain Pacific is watching for signs of credit quality stabilization which he doesn't yet see. Bill Palumbo, also of Mountain Pacific, thinks the market is in full fledged revolt at the Feds being so far behind the curve with a 4.25% rate, which has now been recognized. He cautioned that when markets go through such violent transitions as this, there are different world and market environments when they begin to recover. He believes commodities in dollar terms have peaked and doesn't think dollars will continue to flow out of the country for investment, but will come back inside. He also believes that inflation in the US has peaked. Kevin Jones of DBF added that if there is a recession, it will be very short, agreeing with Mr. Fitzpatrick that we could be weeks away from a bull market.

Chairman Olson asked fellow trustees if anyone had a desire to revisit the decision to not raise contribution rates or to revisit the retiree COLA decision because of this market. They do not.

EXECUTIVE DIRECTOR

Mr. Winkle introduced PERSI's new Deputy Attorney General, Joanna Guilfooy. She currently serves at the Department of Administration and at one time worked at the law firm of Hawley-Troxell Ennis & Hawley. Mr. Winkle said she has many years of experience in state government.

Legislative Update: Mr. Winkle reviewed the first Legislative Status Report of the session which tracks issues and potential legislation affecting PERSI. He said a Volunteer Firefighters Longevity Award program is being discussed as well as a plan to provide a \$100,000 death benefit to volunteer firefighters killed in the line of duty. Neither of these plans are being supported by PERSI. Medical insurance for police officers disabled in the line of duty which was proposed in SB 1181 last year is also being discussed. Because this involves such a small group within the PERSI plan and could involve medical insurance, we are not supporting placing the program within PERSI. There is also a proposal to remove the cap from the State Retiree Medical (Sick Leave) Plan. With the proposal to shift additional costs of medical insurance to retirees and with the growth in retiree medical insurance costs over time, there has been continued interest in removing the cap on the amount of unused sick leave State Employees could use to pay retiree medical insurance premiums. This would make the State plan comparable to the School District plan. The contributions for this program are paid by the State at 0.65% of active member compensation. Responding to a question from Trustee Hayes, Mr. Winkle said as long as the amortization period seems reasonable and remains within the employee's working life, we have left the funding decision to the state. Finally, he said that we expect legislation to lower the age for teacher retirement-in place from age 62 to age 59½. This appears to be the lowest appropriate age according to federal legislation and rules published by the IRS in this regard, as it is considered an "in-service distribution."

The PERSI budget will be reviewed by JFAC on February 11. Chairman Olson will not be available to join Mr. Winkle, Deputy Director Don Drum, Financial Officer James Monroe and Chief Investment Officer Robert Maynard for the presentation as he has done in past years. Other Trustees will check their schedules and notify Mr. Winkle if they are available to attend.

Mr. Winkle told the Trustees that the Task Force for Divestment in Sudan is presenting legislation again this year to require PERSI to divest. The Task Force asked PERSI to review their proposed legislation, but we declined as we were advised that if we were to suggest changes, it could be construed as support for the resulting document. Trustee Hayes asked that the article "Fallacies on divestment" from the January 7, 2008 issue of Pensions & Investments be included in the minutes so our members could read this viewpoint. Staff agreed to check with P&I to obtain permission to include the article. (Note: Article is included by permission at the end of these minutes).

Indemnification Update: Mr. Winkle had previously provided a written briefing on Board Indemnification to the Trustees. He reviewed information that had been provided in January of 2006 when the Board had questions about their liability in the event of fiduciary claims. He believes that all the situations discussed in the document are covered. Chairman Olson noted that a peer system, CalPERS, has unfortunately had occasion to sue their Governor. He said that it is not without possibility here in Idaho – one former Governor did not include in his budget proposal funding for the contribution as the Board recommended. If resolution was not reached on such issues, it is a very real possibility that legal action would be needed. He wondered who would represent the Board in such a case. Deputy Attorney General von Tagen replied that the Board would need to hire their own counsel in such an instance, as the Attorney General's office could not represent against the Governor.

Executive Director's Status Report: Reviewing his report dated January 16, 2008, Mr. Winkle said the Calvert SRI 401(k) Sudan Free Option continues to grow in assets and contributors. The closing balance as of January 4, 2008 for this fund was \$65,015.45. There are 27 members in the fund with all but six actively deferring salary.

PERSI participated in a presentation by an expert in 403(b) plans from Milliman at the Idaho School Board Association statewide conference in Coeur d'Alene last month. A second presentation is scheduled for June 2008 for the School Business Official's Conference in Boise. The emphasis of these presentations is focused on education of the employers on what the new regulations entail and alternatives for employer administration. Trustee Sullivan asked the status of the private company in the Post Falls area who has approached the Department of Education. Mr. Winkle said according to the Department of Education, one individual is promoting a plan to step in as a third party administrator; however, that is a school district decision. Mr.

Winkle said there are three choices for a school district as they work to comply with the new regulations:

1. They can terminate their plan and allow the members to roll their funds into a 401(k).
2. They can offload all the administration and – at an expense – bring in a third party administrator to manage the vendors and the administration. This would be a company like the one referenced earlier.
3. The school district can take on the responsibilities mandated by the new regulations and handle it in-house.

OTHER BUSINESS: Mr. Winkle referenced a letter from an unknown writer regarding internal management issues which expressed a broad-based disappointment with Executive Staff members. He had earlier presented a copy of the letter to PERSI employees at a regular All Staff meeting and discussed the allegations. He reported that at that meeting employees were infuriated that the person(s) had signed the letter as The PERSI Staff when they disagreed with the letter's content and because they had not been party to its creation. Several employees had written to the Board expressing their anger at how what appears to be a personal dispute was represented as an agency-wide issue, signing for them without their knowledge. Mr. Winkle has an open-door policy and seeks resolution of any employee issues. Chairman Olson said the Board has received copies of the letter. He reiterated support for Mr. Winkle saying at the last meeting his performance was reviewed and he was awarded a salary increase. The Board appreciates the work of Deputy Director Drum and believes this is an isolated incident. The Chairman invited employees to contact him or any of the other Trustees if they wish to discuss this or other employee issues.

Deputy Director's Status Update: Mr. Drum reviewed his January 15, 2008 memorandum to the Board which provided data on the number of estimates, audits, retirements, member deaths, imaging, retiree payroll and transactions during the final quarter of 2007. Workloads are continuing to increase as expected in both the PERSI Answer Center (PAC), the PERSI Processing Center (PPC) and the Employer Service Center (ESC). With the retirement of the Boomers, we anticipate the growth will continue. We will continue to standardize our approach to service and increase staff training in 2008.

Employer Survey Results: Communications Officer Patrice Perow and ESC Manager Diane Kaiser gave a slide presentation showing the results of a survey of PERSI employers regarding PERSI service. The survey provides valuable input as we plan future employer meetings, employer training opportunities and staff training. Ms. Kaiser told the Board that much of the positive responses to the survey were the result of work by former ESC Manager Debbie Buck on manuals for employers and their staff and presentations for employer meetings by ESC employees. Technical Writer Larry Sweat is currently designing on-line employer training to provide another way for employers to gain knowledge of PERSI and our processes.

FISCAL

Fiscal Update/ Travel, Administrative and Portfolio Reports:

Mr. Monroe told the Board that the RFP for audit services for a new five-year cycle has been released for public response. Replying to a question from the Chair, he said four or five bids are expected including firms with a local/regional or national presence. He hopes to have a recommendation for the Board at the March 2008 meeting.

Two increases for the FY2009 Budget have been included in the Governor's recommendation. The appropriation will fund expenses beginning July 1, 2008.

Mr. Monroe had no additional comments regarding the quarterly travel and training report which provided data of completed travel and a projection of known travel during the coming quarter. Discussing the Administrative Expense Report, he noted that the increase in insurance expense was due to actual charges exceeding the amounts estimated by the Department of Administration. The increases were not just for PERSI, as other covered agencies were also billed increased amounts. Mr. Monroe expects these charges to be more consistent going forward. The actual total PERSI budget expenses are very close to expected at 47.9 basis points. Increased legal fees are from private real estate; by year's end, we may spend more than budgeted for that line item, but will spend less in other areas.

OTHER BUSINESS: Mr. Winkle announced that Executive Secretary Joanne Ax is retiring. We currently have more than 60 applicants for that position. Ms. Ax will leave PERSI in mid-March.

Future Meetings:

February 26 2008, 8:30 a.m., Boise - PERSI office

March 25, 2008, 8:30 a.m., Boise - PERSI office

April 22, 2008, 8:30 a.m., Boise - PERSI office

May 27, 2008, 8:30 a.m., Out of Town

Investment Manager Meeting, June 17, 18, 19

July 22, 2008, 8:30 a.m., Boise - PERSI office

August 26, 2008, 8:30 a.m., Boise – PERSI office

September 23, 2008, 8:30 a.m., Boise - PERSI office

October 28, 2008, 8:30 a.m., Boise - PERSI office

COMBINE NOVEMBER MEETING WITH DECEMBER

Dec. 9, 2008, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to come before the Board, Chairman Olson wished everyone a Happy New Year as he adjourned the meeting at 10:15 a.m.

The following article is included in the minutes by permission:

Fallacies on divestment

Policy won't sway companies or help oppressed

By **Cody Ferguson**

Posted: January 7, 2008, 6:01 AM EST

The current geopolitical institutional divesting discussion that is garnering national attention is predicated on a fallacy that, for the most part, has gone unchallenged. The commentary regarding divestment, dripping with emotion, urges investors to either avoid investing money in companies that do business in rogue or terrorist nations or, even more to the point, demands that investors take money away from said companies by way of strategic divestment. The fallacy is revealed by a simple review of the following facts:

Fact: When an institutional investor sells a company's stock it does not result in money being taken away from that company. The companies in question are usually very large multinational organizations. When investors sell or divest of their stock, it is being sold to other investors at no loss to the target company. If a large institutional investor wishes to influence the future direction of a company, the proper course of action is to increase the position held, not reduce it. An investor with no stock has no seat at the bargaining table. If you are serious about politically influencing a company's behavior, corporate governance initiatives, not divestment, can produce real results.

Fact: It is not likely that strategic divesting will influence company stock prices. In order for that to happen, the activity would have to be well coordinated among large institutional investors and completed within a very short time frame. If that could be accomplished it would probably cause only a short-term, momentum-driven decline in stock prices. And those who are last to divest would be selling into a down market, losing money for the fund. Of course, the price decline would have nothing to do with underlying value, so the most logical buyers would be the company whose shares were being sold and/or hedge funds, meaning many of the shares would be returning to the very funds that originally sold them. The market has a way of correcting for momentum-driven price changes and frequently does it in short order. Strategic divestment would not be an exception.

There is, of course, also the issue of fiduciary responsibility and the dilemma faced

by trustees who are directed to arbitrarily divest regardless of the financial consequences. Interestingly enough, that matter seems to only be of interest to those who are, in fact, fiduciaries. Proponents of divestment who have no responsibility or liability seem perfectly happy to see actual fiduciaries expose themselves to risk. This argument, however true, seems to be a non-starter when it comes to today's divesting discussions.

Even though divesting does nothing to influence the so-called errant companies in question, shouldn't we do it anyway if it makes us look or feel good? The answer is that besides the fiduciary pitfalls, there are plenty of reasons we should not divest — not the usual fiscal arguments but rather reasons that have to do with being patriots who are concerned about the future welfare and safety of our country and our men and women in uniform. Those reasons include:

Third World countries are in dire need of infrastructure and economic development. Getting a taste of what can be rather than what is and being exposed to people from developed countries can have a very positive impact on the attitude of the general population. Terrorists, on the other hand, thrive in an environment where the general population is deprived. Keeping the masses from having basics such as water, electricity, telecommunications, roads, and health-care facilities plays right into the hands of the terrorist.

Multinational companies concerned about their reputations are the companies we should want to see operating in the sanctioned nations. Historically, most of them go the extra mile to be seen as a force for good rather than a force for evil. Divesting exposes such companies to risks to their reputations to which the good ones would rather not be exposed. Get them to pull out through divesting pressure and what is left? Companies that don't care beyond their profit margins.

Many of the multinational companies in question are domiciled in our allied countries. Denigrating such companies is tantamount to denigrating their headquarter countries. Divesting alienates current and prospective allies at a time when we need all the political friends that we can find worldwide.

Multinational companies operating in sanctioned nations can be valuable sources of information that can be critical to the potential success of U.S. political and military operations. If divesting alienates the companies, the rhetorical question is: How cooperative should we expect them to be in assisting our intelligence-gathering networks and our armed forces in times of need?

The long-term economic viability of the United States is largely dependent on our place in the global economy. Divesting smacks of the isolationist and protectionist policies that have never worked in the past and that will not work now or in the

future. Such policies, however, will go a long way toward relegating the U.S. to a secondary economic influence in the world marketplace.

Complicating pension fund investment, President Bush on Dec. 31 signed into law S. 2271, the Sudan Accountability and Divestment Act of 2007, which "purports to authorize state and local governments to divest from companies" in Sudan, according to a White House statement, which added, "as the Constitution vests the exclusive authority to conduct foreign relations with the federal government, the executive branch shall construe and enforce this legislation in a manner that does not conflict with that authority."

Divest and the terrorists win.

Cody Ferguson is a former trustee of the Los Angeles County Employees Retirement Association, Pasadena, with 26 years of experience on the board dating to 1978. He was very involved in researching and writing LACERA's existing policies related to institutional strategic divestment. He was a career firefighter for the county.

Alan H. Winkle
Executive Director

Jody B. Olson
Chairman